

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2001-122

May 1, 2001

BANGOR GAS COMPANY, LLC
Proposed Cost of Gas Adjustment
(\$4703)

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Bangor Gas Company LLC's (Bangor Gas) Cost of Gas Adjustment for the 2001 summer period as updated in its April 17, 2001 filing.

II. PROCEDURAL HISTORY

On February 15, 2001, Bangor Gas filed its proposed cost of gas adjustment (CGA) for the summer 2001 period. The Commission issued a Notice of Proceeding to interveners in prior CGA cases and by publication in newspapers of general circulation in Bangor Gas's service area. The Office of the Public Advocate filed a timely petition to intervene, which was subsequently granted by the Hearing Examiner.

To investigate the proposed CGA changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on March 29, 2001 at which the Hearing Examiner addressed interventions and set a procedural schedule. On April 11, 2001, a technical conference was held at which the Company reported on the results of its bidding process and the Advisory Staff and OPA explored the issues raised by this filing.

On April 17, 2001, the Company filed an updated filing that reflected the April 16, 2001 settlement prices for natural gas futures on the NYMEX market.

III. DESCRIPTION OF BANGOR GAS'S PROPOSED RATE

In this filing, Bangor Gas seeks to establish an estimated cost of gas rate to apply to any customers who take service in the upcoming summer period. Bangor Gas is a start-up gas distribution utility whose gas supply requirements may change daily as customers are added. Bangor Gas does not plan to manage the gas procurement function in-house at this time, consistent with its proposal in the winter CGA period.

Because its actual gas requirements for the upcoming summer period cannot be forecast with confidence, Bangor Gas plans to contract with a supplier

to provide gas at market prices throughout the summer period as those needs arise, similar to the contract entered into during the past winter period. Bangor Gas asserts that the current natural gas futures prices are the best indicators of market prices and, thus, its expected gas costs for the upcoming summer period.

In response to Advisor Date Request No. 1-1, Bangor Gas filed its schedule for obtaining bids and selecting its gas provider for the summer period. At the April 11, 2001 technical conference, Bangor Gas witness Rodger Schwecke, testified that the Company received only three responses to its RFP for gas supply during the summer months and only one included an actual bid for supply service. The bid received was from Bangor Gas's affiliate, Sempra Energy Trading Company (Sempra), and was accepted by Bangor Gas. Bangor Gas and Sempra will amend the existing contract for the 2000-2001 winter period to reflect the new terms of supply service.¹

In its testimony, Bangor Gas outlined the components of a "normal" Cost of Gas Adjustment, such as storage, injection or withdrawal capacity charges, balancing fees or charges, carrying costs on gas in storage, consistent with its filed tariff in Docket No. 99-531. However, the rate proposed by Bangor Gas does not reflect many of these components because it does not incur such costs under its supply arrangement with Sempra. Moreover, there is no cost of gas balance (from either under or over collection in the prior summer period) to carry forward into the summer 2001 rate because this is the first summer period in which Bangor Gas will provide service. Bangor Gas included a sales forecast for the summer period in its filing but that forecast is dependent on when and if it obtains the estimated new customers.

Calculated using a methodology intended to produce a proxy for market price, Bangor Gas's proposed 2001 summer CGA would increase the energy charge for all classes of customers from the current tariff rate of \$0.532 per therm to \$0.586 per therm. The new rate is based on projected costs of natural gas in the region based upon an average of futures prices, as reported in the Wall Street Journal on April 17, 2001 for the April 16, 2001 settlement prices, adjusted for additional costs to transport gas supplies to New England.

IV. ANALYSIS

Bangor Gas proposes that we set the CGA rate based on the natural gas futures prices as settled on April 16, 2001 and reported in the Wall Street Journal on April 17, 2001 plus an adder representing transport costs. This adder was

¹ The Commission approved the winter 2000-2001 contract with Sempra as an affiliated interest transaction in Docket No. 2000-938. The amendment will also require approval.

calculated as the difference between the Tennessee Zone 6² and NYMEX prices for the summer of 2000. Bangor Gas states that this price is a proxy for the forecast commodity price that would be delivered into Bangor Gas's system and is consistent with the terms of its amended contract with Sempra.

Bangor Gas's current filing raises two concerns. First, does the use of an index price in the gas procurement contract and a fixed price in setting the CGA produce reasonable results that send the proper price signals to the customers in Bangor Gas's territory? Second, did Bangor Gas's bid procedures give a fair opportunity to other non-affiliated gas suppliers?

The continued use of the Tennessee Zone 6 price is consistent with the terms of the contract for gas supply that Bangor Gas proposes to enter into and is a fair estimation of the expected market price. Moreover, the Company's use of the most recent market prices in setting the CGA rate should allow for the proper price signals to customers.

The bid procedures were outlined by Bangor Gas in its response to Advisor Data Request No. 1 and listed approximately 20 registered Maine or regional natural gas suppliers that Bangor Gas offered an opportunity to bid for its summer 2001 gas supply contract.³ The fact that Bangor Gas only received one bid appears to confirm Bangor Gas's expectation that its requirements are, as yet, too specialized to interest most suppliers. The supply needs for a start-up utility are neither large nor predictable.

We conclude that Bangor Gas's bid procedure for this period was fair. We would expect that the Company be as diligent in its ongoing searches for gas supply in future periods.

V. CONCLUSION

Use of a marketer to secure the necessary gas supplies seems reasonable given the early stage of Bangor Gas Company's service and the inherent difficulty in forecasting customer consumption without the benefit of historical usage information. Bangor Gas's use of futures prices plus a transportation adder from an index that is consistent with the index on which its gas supply contract is based is reasonable and produces a reasonable estimate of energy costs for the upcoming summer period.

² The Tennessee Zone 6 price is the price one would pay for gas taken off the Tennessee interstate system in New England.

³ We note that Bangor Gas included Sprague Energy in its supplier solicitation list, as required by our Order in Docket No. 2000-697, Bangor Gas's winter 2000-2001 CGA case. Sprague intervened in that docket complaining about Bangor Gas's bid selection process and Sprague's absence on Bangor Gas's solicitation list.

Accordingly we

O R D E R

1. That Bangor Gas's proposed revised CGA rate of \$.0586 per therm shall take effect for gas consumed on or after May 1, 2001; and

2. That Bangor Gas's Fourth Revised Sheet Nos. 48 and 49 constituting its Cost of Gas Adjustment for the period May 1, 2001 through October 31, 2001, are approved.

Dated at Augusta, Maine, this 1st day of May, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. §9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.